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SIPDIS

SENSITIVE

STATE FOR E, P, EUR/SE AND EB  
TREASURY FOR U/S TAYLOR AND OASIA - MILLS  
NSC FOR QUANRUD AND BRYZA

E.O. 12958: N/A

TAGS: [ECON](#) [PREL](#) [TU](#)

SUBJECT: TURKEY'S ECONOMY MARCH 17: SELL-OFF IN LOCAL  
T-BILL MARKET; CONCERN ABOUT MARCH 18 TREASURY AUCTIONS

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Markets - Sharply Down; Focus on T-bill Auctions  
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[1](#)1. (U) News that the U.S. financial package was off the table led to sell-offs in all Turkish financial markets in the morning March 17 trading session:

-- The lira depreciated 2 percent to close at TL 1,680,000 to the dollar (Friday's close was TL 1,647,000).

-- T-bill rates rose sharply. The benchmark March 3, 2004 bond rose 6 percentage points in the morning to close at 65.5 percent; the December 3 bill rose 7.5 percentage points to close at 67.5. Total transaction volume in the T-bill market was very low, TL 347 trillion or about \$210 million.

-- The Istanbul Stock Exchange dropped 9.5 percent on the morning.

[1](#)2. (SBU) The leading indicators of market sentiment this week are the three Treasury debt auctions. The first auction of the week was the March 17 "reference rate" auction of a three-month bill. "Reference rate auctions" are used to set the interest rate on quarterly coupon payments for floating rate notes. According to the auction results, announced 1 pm local time, Treasury raised TL 1.07 quadrillion at the annual compounded yield of 58 percent.

[1](#)3. (SBU) Treasury's pre-announced target amount for today's "reference rate" auction was TL 1.4 quadrillion (reference rates auctions target a fixed amount which is 15 percent of the related month's total debt redemptions.) Akbank's Kurtul and JP Morgan/Chase's Gumisdis both told us the banks are focused more on tomorrow's auctions (re-issuance of the March 3, 2004 maturity bond, and a 4.5 month bill), and were only buying today's three-month bill for clients, not for their own accounts. Nevertheless, the low demand in today's auction should be a warning for tomorrow's auctions. Kurtul and Gumisdis now expect rates on the one-year bond tomorrow to be in the 67-70 percent range.

Positive Spin among Some Local Analysts  
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[1](#)4. (U) Secretary Powell's Fox News Sunday interview, carried by AP March 16, was prominently covered by some local brokerage houses on March 17. Bender Securities, for example, highlighted the Secretary's comments that there remains hope for the U.S. package. (The Secretary reportedly said, "I wouldn't eliminate any of the options that are on the table right now. A lot depends on what Mr. Erdogan feels he can get through his parliament...Whether it will be in a timely manner or not remains to be seen.") Foreign Minister Gul also told the press on the morning of March 17 that the government is still talking to the USG about the troop deployment and U.S. financial package issues.

2003 Budget Reported Out of Parliamentary Committee  
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[1](#)5. (SBU) After an all-night session March 16/17, the parliament's Budget and Planning Commission passed the

full-year 2003 budget, at 6:00 am March 17. Treasury public finance debt expert Mert Sumer, who attended the session, told us the plan is for full parliamentary passage of the budget by Friday, March 21 (since the President has ten days to sign the budget, and it needs to be in place by April 1.)

16. (U) According to press reports, State Minister Babacan gave the Budget Commission the following data on budget financing: the Treasury estimates total 2003 debt service at \$93.4 billion, \$82 billion of which is domestic debt service and \$11.4 external debt service. Sources for these payments are the primary surplus (13 percent); privatization (1 percent); new external borrowing (11 percent); new domestic borrowing (75 percent.)

16. (SBU) Press reports indicate that the GOT reached a compromise over the weekend with the World Bank over the proposed delay of the "Direct Income Support" (DIS) payments to farmers in 2003. As passed by the Budget Commission March 16, the 2003 budget includes TL 500 million in DIS payments (the World Bank initially asked for at least TL 1 quadrillion). World Bank resrep Sally Zeillion told us March 17 that the TL 500 trillion in farmer support may be enough for the Bank to extend its pending adjustment loans to Turkey beyond their March 31 expiration dates (a total of \$1.375 billion in loan tranches.) She said there was no formal agreement as yet with the GOT on seeking these extensions. She also noted that Babacan had also informally told the Bank that it would look again at adding more resources to the DIS program later this year, if tax revenue came in better than projected.

PEARSON